

Poland

Summary of Current System

	Pillar 1	Pillar 2	Pillar 3
Type:	♦ Defined-benefit		
Financing:	♦ PAYGO		
Participation:	♦ Mandatory		
Management:	♦ Publicly-managed		
Coverage:	♦ Public and private employees, apprentices, cooperative members, self-employed artisans, home-workers, attorneys, clergy		
Eligibility:	♦ Age 65 (men) or age 60 (women) and fulfilled minimum contribution period		

Challenges Facing Pension System

- ☐ Generous benefits
- ☐ Chronic pension fund shortfalls
- ☐ Demographic shifts

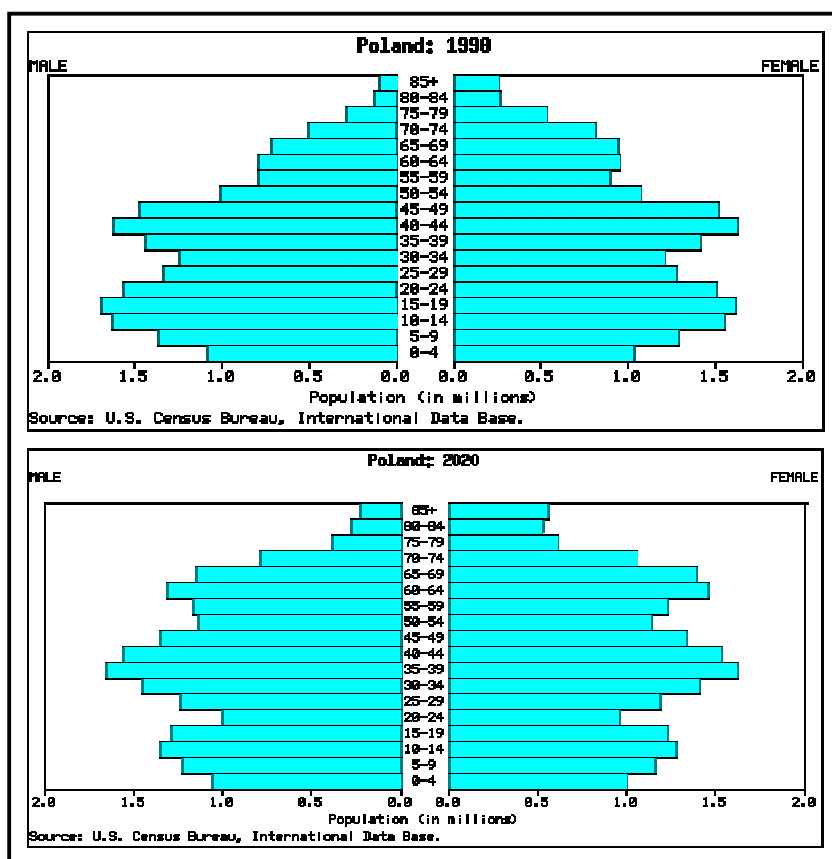
Summary of Current Pension System

The pension system in Poland covers the majority of the population (both full-time and part-time employees), with some exceptions. Separate pension schemes have been established for farmers and the self-employed. The system is characterized by a defined-benefit structure and financed on a pay-as-you-go (PAYGO) basis.

In addition to providing retirement benefits, the pension system covers work injury, disability and survivor benefits. Compulsory contributions to the social insurance fund (FUS) are made solely by employers (amounting to 45 percent of wages and salaries) and state budgetary transfers (which cover about 15 to 20 percent of FUS expenses).

An employee is entitled to benefits once two requirements are met: (1) retirement age is achieved (60 years for women and 65 years for men), and (2) minimum contribution period is met (at least 20 qualifying years for women and 25 years for men).

Pension benefit levels depend on earnings and the number of qualifying years. Generally, individuals receive 24 percent of the average national salary plus, for each qualifying contribution year, 1.3 percent of the worker's earnings base (which is defined as the worker's average monthly salary over



six consecutive years, chosen by the employee from the last 15 years of work). Minimum pension benefits, irrespective of past earnings or length of employment, amount to 39 percent of the average national wage. Pensions are indexed to inflation, if inflation is higher than 10 percent over a three-month period.

Challenges Facing Pension System

The pension system was wrought with chronic financial instability. Pension expenditures more than doubled from 7

SELECTED INDICATORS		
Demographic	Year	
	1998	2020
Total Population (in thousands)	38,607	40,344
Life Expectancy at Birth (Years)	72.77	77.93
Total Fertility Rate (Child Born per Woman)	1.4	1.6
Age Dependency Ratio (percent)	25.9	41.5
	1980-2000	2000-2020
Average Annual Rate of Population Growth (percent)	0.4	0.2

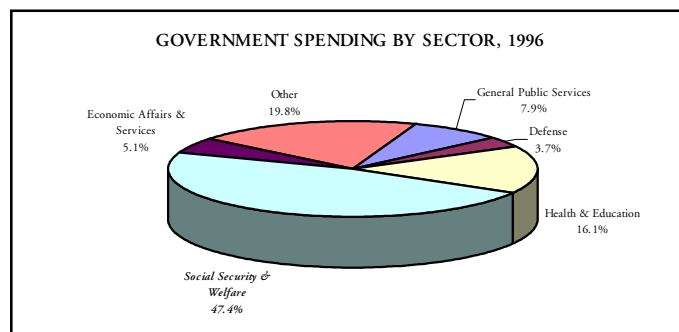
Source: U.S. Bureau of the Census. International Data Base.

Economic	1996
GNP (PPP in billions) ¹	231.7
GNP Average Annual Growth Rate, 1995-1996 (percent) ¹	6.3
GNP Per Capita (in PPP) ¹	6,000
Inflation Rate (percent) ²	19.9
Labor Force Participation Rate (percent) ³	50.5
Unemployment Rate (percent) ³	12.3

Source: ¹World Bank; ²IMF; ³International Labour Office.

Pension	1997
System Dependency Ratio, 1993 (percent)	53.0
Employee Contribution for Pensions (percent of earnings)	0.0
Employer Contributions for Pensions (percent of payroll)	45.0
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP, 1996 (percent)	15.2

Source: U.S. Social Security Administration; Office of the Govt Plenipotentiary for Social Security Reform.



Source: International Monetary Fund. Government Finance Statistics Yearbook, 1997.

percent of GDP in 1988 to 15 percent of GDP in 1992. There are several sources for this increase. First, relative to wages, pension benefits are generally considered to be generous. The average replacement rate in 1993 was 77 percent. Next, the pension system experienced an increase in the number of pensioners and a declining number of contributors. From 1989 to 1992, the total number of pensioners increased by 20 percent, from 5.5 million to 6.6 million. While this increase can be explained in part by demographic shifts, the transition from a centrally-planned economy to a market economy has also played a role. Individuals who left the labor market were more willing to retire early since retirement benefits were more attractive than unemployment benefits. In practice, the average retirement age in 1993 was 57 years.

Pension Reform Efforts

Since the early 1980s, the government has addressed problems within the pension system such as chronic underfunding and generous benefits. Incremental reform efforts have, in the past,

focused on averting financial distress. Recently, fundamental pension reform was passed and will take effect in April 1999.

The Office of Government Plenipotentiary for Social Security Reform in 1996 brought pension reform efforts to the forefront. Legislation approved in September 1997 allowed for the creation of private pension funds. Legislation will be signed moving pensions from a single to a multi-pillar system in 1998. Pillars one and two will be mandatory, and pillar three will be voluntary. The reformed first pillar will finance the majority (60 to 65 percent) of pension benefits, and those remaining (35 to 40 percent) will be financed by pillar two.

The pillar one will consist of a reformed PAYGO system (including disability pensions and survivorship benefits), which moves from defined-benefit to "notional" defined contribution. This reform strengthens the relationship between contributions and benefits. As such, benefits received will depend only on the employee's total contribution and the average life expectancy at the time of retirement. The minimum retirement age has yet to be determined. The current retirement ages may be retained under the reformed system or an identical retirement age (e.g., 62 years) may be adopted. The proposed contribution rate will be 36 percent of salary, with equal contributions from employers and employees. Under this system, those under age 30 will switch to the new system while participation for individuals between 30 and 50 years is optional. Finally, those older than 50 cannot switch.

The universal funded pillar, will finance only pension benefits and will be managed by pension fund companies. Initially about 10 to 20 pension funds will be established and regulated by a newly created pension fund supervision office. Individuals will have their own accounts and be able to choose funds based on investment performance or service. The proposed contribution rate to the pillar two is 9 percent of the employee's salary. Pillar three will consist of voluntary savings arrangements, which is regulated by pension fund supervision office. It is expected that employers and industry associations will offer voluntary pensions to employees.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓	✓	✓
Formulation of proposals	✓	✓	✓
Development of draft legislation	✓	✓	✓
Introduction of legislation by parliament	✓	✓	✓
Review of legislation by parliament	✓	✓	✓
Passage of legislation by parliament		✓	✓
Implementation of legislation			